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STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission
On Its Own Motion

Requirements governing the form and
content of contract summaries for the
2000 neutral fact-finder process under
Section 16-112(c) of the Public Utilities
Act.

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0007
Nicor Energy LLC
00-0007 Nicor Energy LLC EXHIBIT No. 1
Witness _____
Date 3/3/00 Reporter adl

DIRECT TESTIMONY OF KOBY BAILEY

Q1. Please state your name and business address.

A1. Koby A. Bailey, 1844 Ferry Road, Naperville, Illinois 60563.

Q2. On whose behalf are you testifying?

A2. Nicor Energy, LLC ("Nicor").

Q3. Please summarize your educational background and experience.

A3. I hold the degree of Bachelor of Science, majoring in Economics and Finance
from Illinois State University, and the degree of Master of Science, majoring in
Quantitative and Regulatory Economics from Illinois State University. I am
Director of Regulatory Affairs for Nicor Gas, a subsidiary of Nicor, Inc. I have
been an employee of Nicor, Inc. since January of 1998. From November of 1995
until October of 1997, I was employed as Assistant to the Chairman of the Illinois
Commerce Commission. From June of 1991 until November of 1995, I was
employed as an economist at Argonne National Laboratory.

Q4. Have you previously testified in proceedings before the Illinois Commerce
Commission ("ICC" or "the Commission")?

A4. Yes. I submitted testimony in Docket Nos. 98-0649, 98-0650, 98-0769 and 99-

0017.

Q5. Please summarize the issues you are addressing in this proceeding.

A5. It is my understanding that the Illinois Commerce Commission Staff will be submitting as attachments to testimony the Instructions for Completing Summary Form and Worksheets (“Instructions”), as well as the Forms reporting entities must use to report the required information for applicable wholesale and retail contracts. My testimony addresses two issues found on the Instructions form. The first issue concerns the treatment of bundled service contract prices found in D(3); specifically, what transition charges should be used in the unbundling of delivery service charges as stated in 16-112(c)?

The second issue, found in Sections D(4) and E of the Instructions, addresses the appropriate methodology for unbundling capacity and energy prices in contracts where the Retail Electric Supplier (“RES”) wholesale product is priced on a dollar per kilowatt-hour or dollar per megawatt-hour (“\$/kWh” or “\$/mWh”) basis.

Q6. Please summarize your recommendations regarding the above issues.

A6. My recommendations are as follows:

The pricing mechanism for determining the appropriate transition charge to apply to unbundled contracts should be 1999 day-ahead pricing. By applying historic day ahead pricing, the Neutral Fact Finder (“NFF”) can extrapolate the appropriate market value energy charge because the customer transition charge (“CTC”) component derived from bundled contracts would be more reflective of 2001 values. In cases where a’ wholesale contract is expressed in terms of \$/kWh, a reporting entity should provide the NFF with identical pricing parameters,

instead of calculating separate energy and capacity charges for each such contract.

Q7. How is your testimony organized?

A7. My testimony follows the sequence of the two issues listed above.

Q8. What concerns do you have for the treatment of bundled service contract prices found in Section D(3) of the Instructions?

A8. According to the Instructions, the section I am addressing reads as follows:

“As required by Section 16-112(c), reporting entities are to deduct delivery service charges (including transition charges as defined and set forth in applicable tariffs that are in effect at the time the reporting entity’s data is submitted), and charges for services, if any, other than the provision of power and energy or delivery services, from bundled service contract prices reported to the NFF..”

Specifically, I am concerned about the above parenthetical that states: “including transition charges as defined and set forth in applicable tariffs that are in effect at the time the reporting entity’s data is submitted.” According to Section 16-112(c) of the *Electric Service Customer Choice and Rate Relief Law of 1997* (the “Act”), the relevant portion states:

“In reporting to the neutral fact-tinder the price of power and energy sold under bundled service contracts, electric utilities and alternative retail electric suppliers shall deduct from the contract price the charges for delivery services, including transition charges, applicable to delivery services customers in a utility’s service area, and charges for services, if any, other than the provision of power and energy or delivery services. The Commission may adopt orders setting forth requirements governing the form and content of such summaries.” (emphasis added) (220 ILCS 5/16-102(c))

My point is simply that the Act does not specifically state that the CTC charges used for unbundling service contract prices be derived from utility tariffs in effect at the time the reporting data is submitted by a reporting entity. Effectively, the current process will use the CTC tariff for 1999 and 2000 to determine market values for the year 2001. The current CTC tariff values will not be reflective of

the appropriate CTC values for 2001. Utilizing tariffed CTC values will effectively distort the NFF's determination of the market value energy charge and perpetuate the 2000 market values into 2001.

Q8. What is the consequence of utilizing tariffed CTC numbers for unbundling contracts?

A8. Reporting entities in the Neutral Fact Finder process are required to report the prices and quantities of electricity to be delivered to a variety of parties for 2001 through 2006. The reported numbers will consist of a group of contracts executed from roughly January 1999 to March 2000. For the October 1999 through 2000 market values, those market values were determined based on power deals executed prior to June 1, 1999 for delivery in 1999 and 2000. So, the CTC for 2000 was set based on deliveries for 1999 and 2000. If the CTC for 2000 is used to unbundled contracts for delivery in 2001 (and beyond), the market values for 2000 are perpetuated into the future. As the number of contracts used in developing the year 2000 market values were rather small, relative to the expected number of contracts to be reported for 2001, the influence of a small "part" of the total transactions occurring in 2000 will influence market values in 2001. Because of the perpetuation of year 2000 market values into the 2001 market values through the use of the year 2000 CTC values, year 2001 market values may not reasonably represent actual energy and power prices in the market.

Q9. What is your recommendation for the value of such transition charges?

A9. As an alternative to using year 2000 tariffed CTC values, the use of a market-

driven pricing mechanism such as the day-ahead, historic data on power and energy deliveries into Commonwealth Edison's service territory should be utilized for unbundling contracts. While the data is historic in nature, it does value the power and energy that could be used as a reasonable proxy and does not lead to the perpetuation of year 2000 market values into the future. Also, the day-ahead transactions likely represent a more robust picture of the energy market than the relatively few contracts considered by the NFF for 2000.

Q10. What is your recommendation concerning the second issue of unbundling capacity and energy charges for contracts expressed in \$/kWh or \$/mWh terms?

A10. In most cases, unbundling capacity and energy prices on an hourly basis would not only be administratively burdensome, but no accurate methodology to do so is possible at this time. For example, how should capacity charges be allocated to specific hours when the power and energy product purchased on the wholesale market is expressed in terms of \$/kWh? I am not aware of any methodology or proposed methodology to unbundle power and energy at this time. Also, I am unsure of the relative value that either seller or buyer is putting on energy versus power when the price is expressed in terms of \$/kWh.

Q11. What is your recommendation for unbundling capacity and energy prices?

A11. In cases where the wholesale contract is expressed in terms of \$/kWh, the reporting entity should provide the NFF with identical pricing parameters by expressing these contracts in terms of \$/kWh, instead of calculating the energy and capacity charges for each contract. So, for reporting wholesale contracts with a price expressed in \$/kWh for a one year term, the fixed kWh price should be

133 reported for each of the 8760 hours. Understandably, quantities for delivery may
134 vary over the year.

135 Q12. Does this conclude your direct testimony?

136 A12. Yes.